

Budget Letter - From City Administrator to City Commission

April 30, 2009

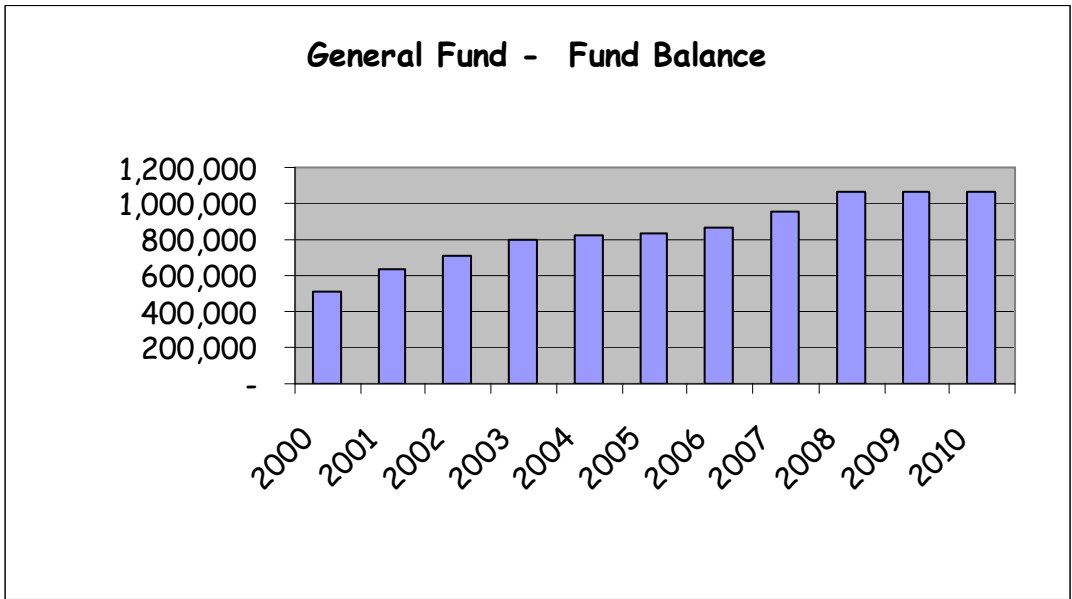
To the Citizens of Auburn Michigan,
Honorable Mayor McNally and City Commission:

I am pleased to present to you the City of Auburn's Fiscal Year 2009-2010 Proposed Annual Budget. This budget has been prepared to provide a balanced financial plan for municipal operations in a format that compares projected revenues and expenditures with those of the current fiscal year and the audited figures for 2008. In addition to the individual budgets of the various City Funds, this notebook contains supporting material and detailed information on various subjects related to the budget.

The proposed budget for the year beginning July 1, 2009 and ending June 30, 2010 is balanced as required by State law. A projected Fund Balance of \$1,032,253 is well within established guidelines for a municipality the size of Auburn.

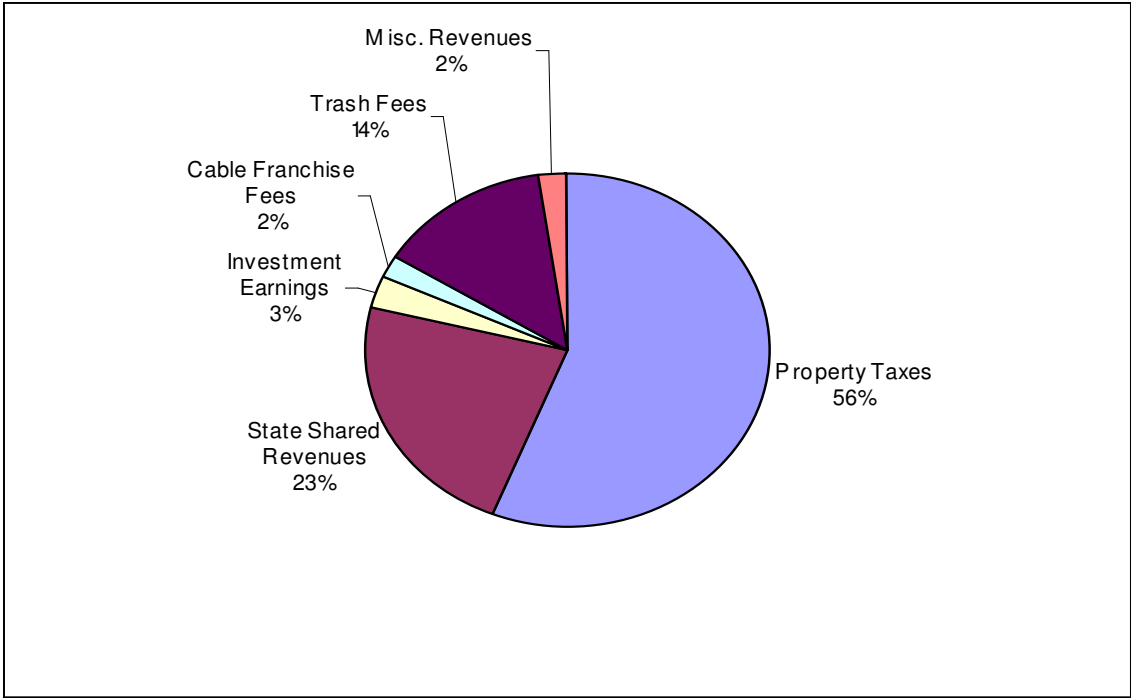
The following table and chart illustrates the steady increase in the General Fund balance for the past nine years and the proposed increase for the FY09 and FY10 budgets.

Fiscal Year	Fund Balance
June 30, 2000	\$514,006
June 30, 2001	\$629,531
June 30, 2002	\$711,873
June 30, 2003	\$800,161
June 30, 2004	\$821,539
June 30, 2005	\$828,215
June 30, 2006	\$871,635
June 30, 2007	\$960,499
June 30, 2008	\$1,062,100
June 30, 2009	\$1,037,409
June 30, 2010	\$1,032,253



General Fund Revenues

The following chart illustrates the various revenues for the General Fund.



Mills Levied

The City Commission has authority from the City Charter to levy up to 2% of the assessed valuation as equalized. This computes to a tax rate of up to 20.0 mills without a vote of the citizens. The 20 mills authorized in the charter have been permanently reduced by the Headlee Millage Reduction Fraction in 2009 to 17.7963 mills. The 2009 The millage reduction fraction will not affect the City until it is reduced below the 13 mills the City is currently levying.

The following chart depicts a comparison of this year's proposed and last year's actual millage rates. The overall rate has not changed. This will be the second consecutive year the City has reduced the overall millage rate by 3 mills.

	Actual <u>2008-09</u>	Proposed <u>2009-10</u>
Operating	10.0000	10.0000
Road Revolving	<u>3.0000</u>	<u>3.0000</u>
Total Mills	<u>13.0000</u>	<u>13.0000</u>

- Rate of Growth of Property Tax Base - Data from the City Assessor indicates that the taxable value of property located within the City of Auburn decreased at a rate of .02 percent, from 52,989,865 at December 31, 2007 to 52,901,426 at December 31, 2008. Of the overall 88,439 taxable value decrease was outside the DDA District with a slight increase in the district of 48,873.

The following chart depicts the total City taxable value, the percentage increase for the previous six years, the total DDA taxable value and the percentage of the growth (decline) in the DDA district and the City.

Fiscal Year	City Taxable Value	Increase (Decrease)	DDA Taxable Value	DDA % of Increase (Decrease)	City % of Increase (Decrease)
2001-02	37,598,440	N/A	2,160,300	N/A	N/A
2002-03	40,216,358	2,617,918	3,300,037	44%	56%
2003-04	43,869,952	3,653,594	5,273,134	54%	46%
2004-05	46,540,511	6,324,153	6,660,313	22%	78%
2005-06	48,871,191	2,330,680	7,718,109	45%	55%
2006-07	51,219,506	2,348,315	8,559,943	36%	64%
2007-08	53,431,407	2,211,901	9,499,215	42%	57%
2008-09	52,989,865	(441,542)	9,041,738	103.61%	0%
2009-10	52,901,426	(88,439)	9,090,611	100%	100%

STATE SHARED REVENUES

The state revenue sharing program distributes sales tax collected by the State of Michigan to local governments as unrestricted revenues. Funding for the program consists of the following dedicated tax revenues:

- Constitutional – 15% of the 6% gross collections of the state sales tax
- Statutory – 21.3% of the 6% gross collections of the state sales tax

Distributions of constitutional revenue sharing are based on population. The formula for statutory distributions includes factors such as taxable value per capita, local unit type, population and a tax yield equalization factor.

Historically, state shared revenues have provided the General Fund with its second largest source of revenue. While this statement remains true, state shared revenues have decreased when compared to property taxes. Due to the slowdown in the economy, and the State of Michigan's competing need for those funds, the City experienced no increase in state shared revenue in 2008-2009 and it is not optimistic about increases in that revenue source for the next few years. This year's estimated revenue sharing is the same as the previous year.

The following table illustrates the decline since fiscal year 2000-01.

Year	Amount of State Shared Revenue	\$ Difference	% Difference
2000-01	221,492	N/a	N/a
2001-02	225,846	4,354	2%
2002-03	207,673	(18,173)	(8.05%)
2003-04	201,888	(23,958)	(10.60%)
2004-05	191,453	(34,393)	(15.22%)
2005-06	189,884	(35,962)	(15.9%)
2006-07	187,641	(38,205)	(16.75%)
2007-08	183,700	(42,146)	(19.00%)
2008-09	177,000	(44,492)	(20.00%)
2009-10	177,000	(44,492)	(20.00%)

These cuts have reduced the City's projected FY 2008-09 revenues by more than \$44,000 from their peak in 2001-02 with cuts totaling \$281,821 over the last eight years. State Shared Revenues make up approximately 23% of our General Fund revenues. The loss of \$44,000 equates to .83000 mill, based on the City's 2008 taxable value.

Investment Earnings

For the second year in a row, economic conditions have negatively impacted the investment market, causing the City to downgrade its outlook for investment earnings for the upcoming year. The recommended 2009-10 budget uses an average rate of less than 1.5%.

GENERAL FUND EXPENDITURES

A City Hall sign and computer replacement is budgeted in General Fund for this year's budget in addition to the sidewalk repairs. Computers will only be replaced if needed.

- \$3,000 for computer replacement if needed
- \$5,000 for City Hall Sign

PERSONAL SERVICES

An overall 2% increase has been budgeted for staff rate increases with no changes in the health benefits.

OTHER FUNDS

ROAD REVOLVING FUND

The City of Auburn levies 3 mills for road improvement and payment of the Midland Road Bonds. With this year's budget of 1.6729 mills or \$84,886 will be required for the debt payment. The additional 1.3271 mills can be used for road improvements. The City will receive approximately \$160,200 from the 3 mill tax levy for road improvements and investment earnings. There is a projected surplus of \$7,425 in the 2009-10 fiscal year end for future road improvements.

MAJOR AND LOCAL STREET FUNDS

The Local Streets remaining to be improved are Moll, Elm Street (Auburn road to Edwards), Kent and Sycamore (Midland Road to Green St. ROW). These have been budgeted for improvement in future years.

The proposed Major Street Fund budget includes a \$22,250 transfer from the Major Street Fund to the Local Street Fund, as permitted by Act 51. The Act allows municipalities to transfer up to 25% without additional approval of MDOT. This transfer is necessary because the formula that is used to determine distribution of gas and weight tax does not provide enough revenue to cover the cost of maintenance related to the much larger local street system.

WASTEWATER FUND

The working capital for the Sewer Fund is estimated to increase by \$9,509 at the end of 2009 and decrease by \$35,330 at the end of 2009 for a total of \$264,614. This is due to the additional payments to Bay County Sewer & Water for capital improvements to the plant.

We will be conducting a rate analysis in both the water and sewer funds. Bay County Sewer and Water has calculated the rate increase to be about .47/1000 gallons of usage for the \$65,200 yearly charge for plant capital improvements. We have been revamping the water and sewer billing program and will present at a later date a recommended rate increase. With an estimated ending working capital of \$264,614 at 2010 without a rate increase budgeted, the Sewer Fund is still in good shape.

We will continue to work with Bay County Sewer and Water on the use of the old lagoons for sewer over flows during heavy rains and the possible take over of the lift station located near Union Street.

The Wastewater budget includes funds for various sanitary line televising and cleaning of the distribution system. In addition, there are funds budgeted for manhole rehabilitation throughout the City. This preventative maintenance program is designed to address both structural deficiencies of older manholes and helps reduce storm water infiltration to the sanitary sewer system.

WATER FUND

The working capital for the Water Fund is estimated to increase by \$11,172 at the end of 2009 and increase by \$4,936 at the end of 2010 for a total of \$123,228. This difference is due to the larger debt payment to the General Fund for Maple/Kern water main replacement project.

The water leak found and repaired on Midland Road has significantly affected the overall stability of the Water Fund. With a projected savings of \$10,000 for water purchased. Coupled with reevaluating the meter replacement program from a 10 year replacement program to a 15 year meter replacement program. We tested three residential ten year old meters pulled from various homes in the City, the meters tested at 100%, 101% and 94%. This is a projected \$10,000 yearly savings for the meters and does not include labor savings. At our request Michigan Rural Water conducted a survey. The results were 17 communities replaced their meter on an as-needed bases; six communities replaced their meters on a ten-year replacement schedule and one community replaced their meters on a fifteen-year replacement schedule. We will continue to monitor the water loss percentage every quarter to determine if increasing the number of years before replacing the meter is cost effective. Because of the high quality of water the City of Midland produces, meters there are replaced every twenty (20) years. The meters don't get the wear and deterioration over time. The deterioration is accelerated by poor water quality such as corrosive or abrasive water which in turn effects the accuracy of the meter. We will continue to replace stopped meters and meters that have slowed down.

As discussed earlier we will continue to look for cost savings and build the working capital in the Water Fund. At this time the older water mains remaining have not been problematic.

The City of Midland has indicated there will be a 3% rate increase for the purchase of water; this has been budgeted.

MOTOR POOL FUND

As you may know, this fund is designed to cover the costs of purchasing, maintaining and operating vehicles and equipment over the long-term and, as such, will spread financing so that in some years there will be yearly surpluses, and in some years there will be yearly deficits.

The oldest vehicles used for DPW purposes are the dodge one ton used for snow removal, catch basin repairs, hauling trash and chipper truck, the GMC pickup is used for

snow removal and general maintenance. We intend to use them until the potential repair bills to keep them running exceeds the benefit gained.

Estimated cash balance for the end of FY08-09 is \$436,111 and for FY09-10 is \$429,538 for a decrease of \$6,574. The decrease is attributable to the \$33,000 budgeted for potential replacement of vehicles and equipment.

RECOMMENDATIONS

It is recommended that copies of this proposed budget be placed on display in the City Clerk's office at City Hall and at the Auburn Branch of the Bay County Library for public examination.

The City Charter requires that the budget be adopted by the first Monday meeting in June, which is June 1st this year, and that a public hearing be held prior to adoption. Legislation enacted in 1995 allows the Truth In Taxation hearing to be combined with the Charter-mandated hearing. The public hearing and adoption can be on the same date. At this same meeting the tax rate can be set.

Respectfully submitted,

City Administrator